

## Message Text

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67

ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 NEA-10 IO-10 H-02 L-03 PA-02 PRS-01 /119 W

----- 079983

R 270855Z JUN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4929

UNCLAS MANILA 8877

USADB

PASS TREASURY FOR BUSHNELL/MEIGHER

E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJ: TAX TREATMENT ON FOREIGN INCOME

1. US DIRECTOR RECEIVED FOLLOWING FROM DIRECTOR OF PROJECTS  
II JAY B. CARTER WHICH REPRESENTS MATTER OF EXTREME  
IMPORTANCE TO US NATIONALS AND SHOULD BE OF PARTICULAR  
CONCERN IN VIEW OF CURRENT DIFFICULTIES IN RECRUITING  
COMPETENT US NATIONALS FOR POSITIONS ON ADB PROFESSIONAL  
STAFF, PARTICULARLY IN LIGHT OF EXTREME HOUSING COSTS NOW  
PREVALENT IN MANILA.

QUOTE

2. A RECENT PRESS DISPATCH HAS INDICATED THAT THE WAYS  
AND MEANS COMMITTEE OF THE US HOUSE OF REPRESENTATIVES  
WILL SOON BEGIN HEARINGS ON SEVERAL TAX REFORM MEASURES,  
INCLUDING "TAX TREATMENT OF FOREIGN INCOME".

3. WE, THE US CITIZEN STAFF MEMBERS OF ADB, WOULD  
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LIKE TO EXPRESS OUR GRAVE CONCERN THAT AMONG THE

PROPOSALS CONSIDERED WOULD BE ONE TO REDUCE OR ELIMINATE THE FOREIGN SOURCE PERSONAL INCOME EXEMPTION CURRENTLY PROVIDED UNDER SECTION 911 OF THE INTERNAL REVENUE CODE. WE BELIEVE THAT SUCH A PROPOSAL, IF APPROVED, WILL CAUSE TERMINATION OF AN EFFECTIVE AMERICAN PRESENCE ON THE ADB STAFF.

4. NO FOREIGN EMPLOYEES OF ADB EXCEPT AMERICANS ARE LIABLE FOR INCOME TAXES ON THEIR ADB SALARY. CONSEQUENTLY, ADB SALARY SCALES ARE BASED ON THE ASSUMPTION THAT GROSS SALARY EQUALS NET (AFTER TAX) SALARY, AND, UNLIKE THE IBRD AND OTHER INTERNATIONAL INSTITUTIONS, THE BANK MAINTAINS NO SCHEME TO COMPENSATE STAFF MEMBERS FOR INCOME TAX LIABILITIES THEY MAY INCUR. UNTIL VERY RECENTLY, WITH AN EXEMPTION FROM THE FIRST \$20,000 - \$25,000 OF FOREIGN SOURCE INCOME, FEW AMERICAN ADB STAFF INCURRED ANY US TAX LIABILITIES, AND SO, WE DID NOT SUFFER A DISADVANTAGE RELATIVE TO OUR ADB COLLEAGUES FROM OTHER COUNTRIES. WITH RECENT RATES OF INFLATION THESE EXEMPTION LIMITS ARE RAPIDLY BRINGING MORE AND MORE AMERICAN STAFF INTO THE TAX PAYING CATEGORY, REDUCING THEIR NET INCOME RELATIVE TO THOSE OF THEIR FOREIGN COLLEAGUES. THUS, EVEN IF THE EXEMPTION LIMITS REMAIN WHERE THEY ARE, AND INFLATION CONTINUES, THE GAP BETWEEN NET INCOMES EARNED BY AMERICANS AND OTHER FOREIGN STAFF OF THE BANK WILL STEADILY WIDEN AND QUALITY OF AMERICANS ON THE ADB STAFF WILL CONTINUE TO DIMINISH. TO ASSURE HIGH QUALITY AMERICAN REPRESENTATION IN THE BANK, MOVES SHOULD BE MADE TO MAKE EMPLOYMENT BENEFITS FOR AMERICANS AT THE BANK COMPETITIVE WITH OTHER INTERNATIONAL ORGANIZATIONS NOT TO INCREASE OUR PRESENT DISADVANTAGE.

5. ELIMINATING THE EXEMPTION WOULD BE EQUIVALENT TO AN IMMEDIATE 15 PERCENT TO 25 PERCENT REDUCTION IN THE NET SALARIES OF US CITIZENS EMPLOYED BY ADB. WITH ADB NET SALARIES ALREADY BELOW THOSE FOR POSITIONS OF EQUAL RESPONSIBILITY AT THE IBRD AND SIMILAR INSTITUTIONS, MOST OF US COULD NOT AFFORD UNCLASSIFIED

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TO CONTINUE IN THE BANK'S EMPLOY. ALSO, WE DOUBT THAT THE RESULTING NET SALARY SCALES WOULD BE ATTRACTIVE ENOUGH TO SECURE ANY FUTURE RECRUITMENT OF SUITABLY QUALIFIED AND EXPERIENCED AMERICAN STAFF.

6. WE, THEREFORE, REQUEST YOU TO BRING THESE CONSIDERATIONS BEFORE THE APPROPRIATE US GOVERNMENT AUTHORITIES AND URGE THEM TO ENSURE THAT US POLICY

DOES NOT UNINTENTIONALLY BRING ABOUT THE TERMINATION  
OF AN EFFECTIVE AMERICAN PRESENCE ON THE ADB STAFF.  
END QUOTE  
PURNELL

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
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**Decaption Note:**  
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